

THE FIRST 19 MONTHS



CDIAC Pre-Conference

**Municipal Disclosure: Harnessing the Information
Revolution**

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OR

**SO YOU LOVE TO
HEAR ABOUT
SOMEONE ELSE'S
MISERY**



Topics

- What Was I Thinking?
- Was There Really a Problem?
- What Was Found?
- How Are We Going To Fix Things?
- What Do I See For the Future?



What Was I Thinking?

- Allegedly On the Verge of Bankruptcy
- Under SEC Investigation
- Self Imposed Sarbanes-Oxley
- Still Completing fy '03, '04 , '05 CAFRs and now '06 and '07 CAFRs
- 5 of 8 sitting Council Members Under SEC Investigation



What Was I Thinking?

- Previous Mayor Resigned Shortly After Being Re-elected
- Two Council Members Convicted of Bribery and Resigned
- No True Systems in Place
- Segregated Financial Structure
 - Auditor & Comptroller
 - City Treasurer
 - Director of Financial Management



On the Upside

- New form of government
- New mayor with none of the baggage and great community credibility
- WHOLE NEW TOP MANAGEMENT TEAM
- Love a challenge
- **NEVER MET A MONEY PROBLEM THAT COULD NOT BE SOLVED**



Was There A Really Problem?

- Real or Perceived
- Political Rhetoric
- Assess the Financial Condition
- Assess Operational Issues
- Other



Roll-up Your Sleeves and Get Your Arms Around The Situation

- Understand where you have been and determine fact from fiction
- Set a course on where you want to go
- Develop a strategy or plan to get there
- Seek input from interested parties
- Implement the plan
- Be flexible



Understanding The Environment

- A problem in City X and the solutions are not necessarily the same for City Y
- Is there a desire to solve the problem in a meaningful way?
- Two ways to solve your money problem
 - Increase Revenues
 - Decrease Expenses



What Was Found?

- An organization that was bleeding profusely (human resources)
- The need to implement a new structure
- A strong economy thus good revenues
- A general desire for strong leadership
- Competing interests
- ***DISCLOSURE-DISCLOSURE***



Attacking The Finances



Develop A Recovery Strategy

- Develop a Baseline Picture
- Establish New Priorities (8 Funding Priority)
 - Pension
 - OPEB
 - Deferred Maintenance/Capital Improvements
 - Reserves
 - ADA
 - Storm Water Runoff Permit
 - Workers' Compensation Fund Reserves
 - Public Liability Fund Reserves



Carry It Out!!!

- Easier said than done
- Competing Interests/Priorities
- More Than One Way to Solve the Problem(s)
- Is there a problem – Denial
- Are you being too aggressive



General Fund Budget Recap - Revenues

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
<u>REVENUES</u>					
Prop Tax	\$ 386.4M	\$ 393.5M	\$ 400.8M	\$ 408.7M	\$ 416.7M
Sales Tax	249.2M	255.7M	263.4M	271.4M	279.5M
TOT	83.4M	87.5M	91.9M	96.5M	101.3M
Fran Fees	69.2M	73.9M	79.0M	84.3M	90.1M
Other	<u>277.8M</u>	<u>281.1M</u>	<u>285.9M</u>	<u>290.8M</u>	<u>296.1M</u>
Total	\$1,066.0M	\$1,091.7M	\$1,121.0M	\$1,151.7M	\$1,183.7M



General Fund Budget Recap - Expenditures

	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
<u>EXPENSES</u>					
S&W	\$ 524.1M	\$ 532.6M	\$ 537.0M	\$ 537.7M	\$ 538.7M
Benefits	263.5M	271.3M	278.9M	287.5M	296.9M
S&S	191.8M	200.2M	205.9M	211.5M	216.9M
Other	82.5M	86.9M	89.5M	92.8M	97.0M
8 Priorities	<u>91.5M</u>	<u>174.5M</u>	<u>185.6M</u>	<u>201.0M</u>	<u>212.5M</u>
Total	\$1,153.4M	\$1,265.5M	\$1,296.9M	\$1,330.5M	\$1,362.0M



General Fund Budget Recap - Baseline

	<u>FY 08</u>				
<u>EXPENSES</u>					
S&W	\$ 524.1M				
Benefits	263.5M				
S&S	191.8M				
Other	<u>82.5M</u>				
Total	\$1,061.9M				
<u>REVENUES</u>	\$1,066.0M				
 Surplus	 \$4.1M				

ACCUMULATIVE PRIORITY FUNDING

– General Fund Budget Impact

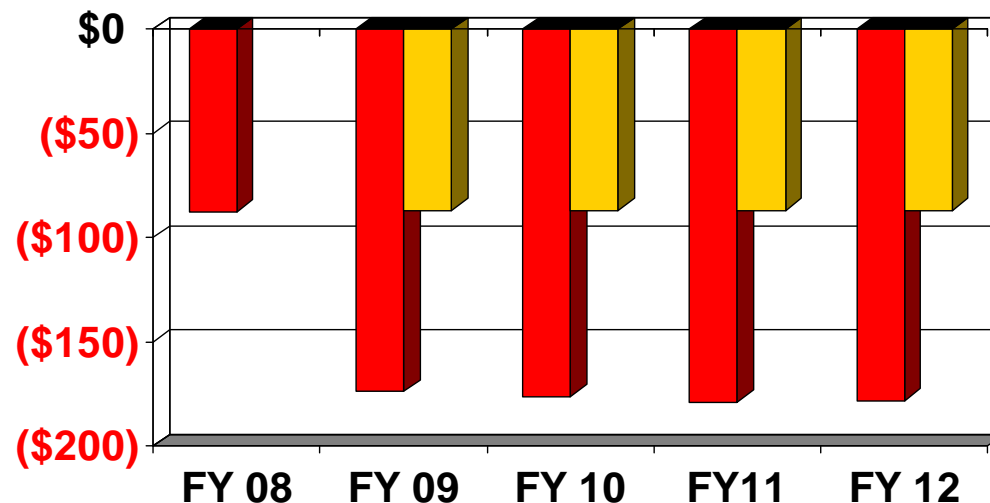


	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Pension	\$ 20.800M	\$ 20.800M	\$ 20.800M	\$ 20.800M	\$ 20.800M
Reserves	\$ 4.800M	\$ 9.700M	\$ 6.900M	\$ 7.300M	\$ 7.700M
Mtce/Cap.	\$ 15.725M	\$ 52.725M	\$ 66.975M	\$ 76.225M	\$ 85.475M
OPEB	\$ 17.000M	\$ 34.100M	\$ 28.800M	\$ 30.600M	\$ 32.400M
Stormwater	\$ 18.200M	\$ 37.200M	\$ 37.100M	\$ 36.100M	\$ 36.100M
ADA Compl.	\$ 10.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M
W/C Fund	\$ 0.000M	\$ 5.000M	\$ 10.000M	\$ 10.000M	\$ 10.000M
P/L Fund	\$ <u>5.000M</u>	\$ <u>5.000M</u>	\$ <u>5.000M</u>	\$ <u>10.000M</u>	\$ <u>10.000M</u>
Total	\$ 91.525M	\$174.525M	\$185.575M	\$201.025M	\$212.475M

Total \$865.125M

Net Results – The Challenge

General Fund Shortfall/Surplus
In Millions

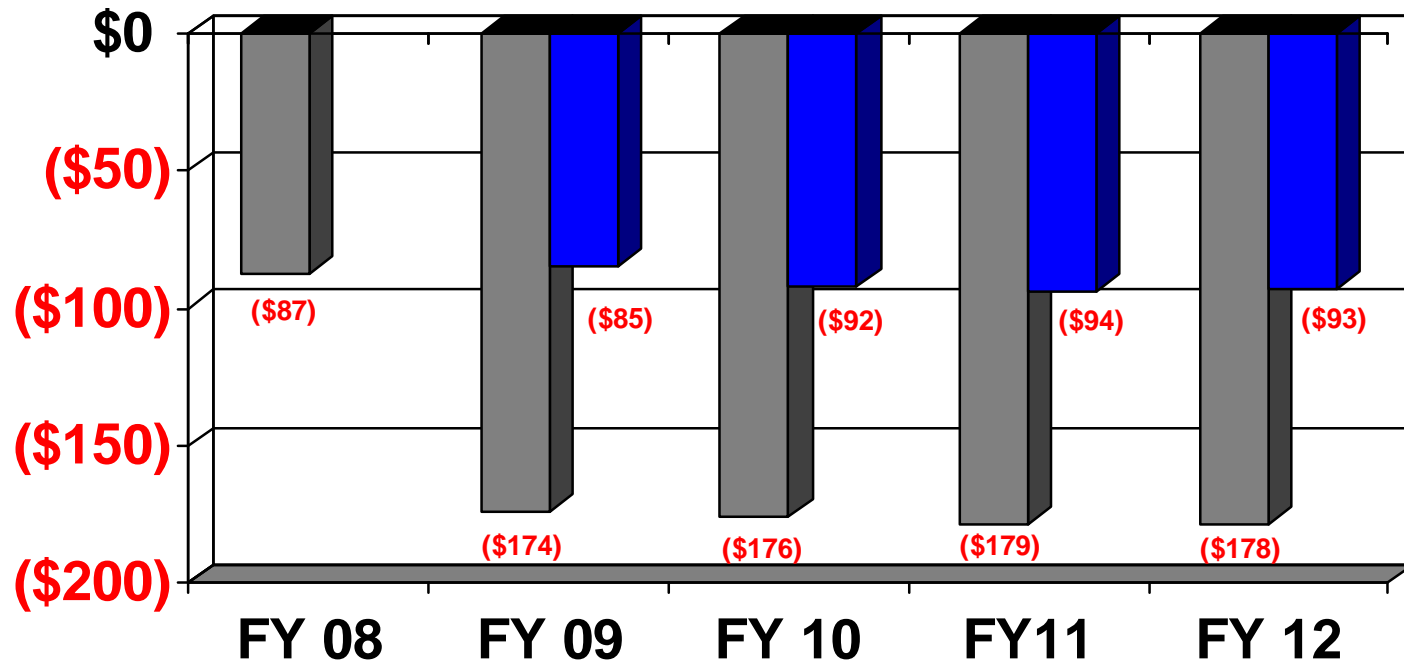


- FY 2008 – (\$ 87M)
- FY 2009 – (\$174M)
- FY 2010 – (\$176M)
- FY 2011 – (\$179M)
- FY 2012 – (\$178M)

The **RED** bar represents the annual deficit. Once permanently solved for FY2008, the **YELLOW** bar represents the amount required to balance each future year.

PROJECTED ANNUAL OPERATING DEFICIT

Based on 2008 Budget
In Millions



The **Gray** bars represent the deficit as reflected in the November 2006 Five-Year Financial Outlook, while the **Blue** bars represent the deficit based upon the fiscal year 2008 recommended budget.



Addressing Disclosure



Preparation of the CAFR

- Have now completed fy 2003 & 2004
 - First time completed in-house
 - 66 restatements-\$1 billion in gross changes
- Close to completing 2005
- 2006 done 90 to 120 days thereafter
- 2007 done 90 to 120 days thereafter
- Established an internal review process



Address Internal Controls

- Kroll
- Yellow Book (Management Letter)
- Developed Remedial Action Plan
- Over 50% completed
- Restore confidence with external auditors
- **RESTORE COMMUNITY
CONFIDENCE**
- **RESTORE MARKET CONFIDENCE**



Disclosure Practices Working Group

- Multi-disciplinary group
 - CFO, Debt Manager, City Attorney's Office, Outside Disclosure Counsel, City Council Representative (IBA)
- "DPWG Charter" – Review all financial documents that might/will reach the financial markets
 - Bond Documents



Disclosure Practices Working Group

- CAFRs
- Continuing Disclosure
- Budget Message
- Cashflow Projections
- Meet as often as necessary



Establishment of an Audit Committee

- Three City Council Members
- Adding public “ad hoc” members for technical expertise
- Committee Consultant with technical expertise
- Meet twice monthly
- Spend at least two meetings reviewing the CAFR before forwarding to Council



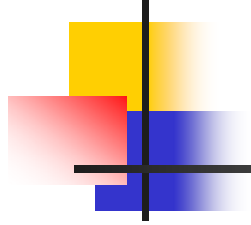
City Council

- Quarterly Training
- First time they have ever taken action on CAFR – Receive & File
- Not totally comfortable yet
- Approve financing transactions



Conclusions

- Come a long way
- Still a lot to do
- Waiting for those **brilliant** rating agency folks to re-evaluate the City's credit
- Heading into a June 2008 election
 - Four Council Members are termed out
 - Mayor and City Attorney are running again



Thank You